



*Andrew Junkin
CFA, CIMA, CAIA
Managing Director*

July 19, 2006

Mr. Russell Read
Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: US Equity Growth Managers Spring Fed Pool Recommendation

Dear Russell,

You requested Wilshire's opinion with respect to Staff's recommendation of candidates for the US Equity Growth mandate to be included in CalPERS' Spring-Fed Pool. Wilshire agrees with Staff's recommendation.

Background

Staff released a Request for Proposal (RFP) for US Equity Growth managers and received 44 responses for this mandate¹.

Staff is recommending the following managers for addition to the Spring-Fed Pool:

- Goldman Sachs Asset Management
- INTECH (two products: one benchmarked to the S&P 500 and one to the Russell 1000 Growth)
- Jacobs Levy Equity Management
- Marvin & Palmer Associates
- Turner Investment Partners.

Discussion

Wilshire independently reviewed and evaluated all of the candidates who responded to CalPERS' RFP. Our process consisted of several steps:

¹ Wilshire's Disclosure of Conflicts of Interest in regard to the managers who responded to the RFP has been sent under separate cover and is attached to this agenda item as an appendix.

- A qualitative assessment of a firm's organizational and ownership structure, quality and caliber of professional staff, depth of resources, pending litigation, compliance, and culture.
- A qualitative assessment of a firm's investment process. Included in that analysis are five key issues. 1) Information – How does the firm gather information? How unique is the information and how does the unique-nature effect the investment process? 2) Forecasting – How does the firm transform the information that has been gathered into a forecast of expected return for each security considered for the portfolio? 3) Portfolio Construction – Given the expected returns forecasts, how does the firm build portfolios? How are risk considerations balanced against the pursuit for alpha? 4) Implementation – How effectively does the firm trade? Is the trading infrastructure capable? Are appropriate controls in place? 5) Attribution – How does the firm analyze its own returns and use the results of that analysis to improve the entire investment process?
- A variety of quantitative assessments, including detailed attribution analysis and a calculation and assessment of product characteristics, which includes various factors such as market capitalization, style, sector weights and security selection.

Wilshire also participated in Staff's interviews of the candidates that took place at CalPERS offices in Sacramento. Staff has received copies of Wilshire's analyses and qualitative assessments of all the candidates.

Findings and Recommendations

Wilshire has determined that each of the candidates that Staff is recommending for the spring fed pool is an institutional quality firm, with investment philosophies and process that are appropriate for this mandate. Additionally, each of these managers is highly evaluated by Wilshire. Further, Wilshire also reviewed the proposed "fit" of each candidate against Staff's stated objectives for this search, namely to identify manager products that can further CalPERS' goal of consistent out-performance within a well-managed risk framework. The managers Staff is recommending offer products that are consistent with these objectives.

Wilshire reviewed the firms that Staff did not select to determine if there were any products proposed that should have been included. Wilshire is satisfied that Staff has not excluded any firms that should have been included.

Wilshire recommends that the Investment Committee approve the list of managers Staff is requesting to be included in the Spring-Fed Pool of US Equity Growth Managers.

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Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in dark ink, appearing to read "Dan Jiri". The signature is fluid and cursive, with the first name "Dan" and last name "Jiri" clearly distinguishable.